

Message Text

CONFIDENTIAL

PAGE 01 TEL AV 08750 121510Z
ACTION NEA-10

INFO OCT-01 ISO-00 SAA-01 CIAE-00 DODE-00 PM-05 H-01

INR-10 L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15

ICA-11 EB-08 TRSE-00 OMB-01 /074 W

-----108085 130925Z /10

R 120943Z JUL 78

FM AMEMBASSY TEL AVIV

TO SECSTATE WASHDC 4112

C O N F I D E N T I A L TEL AVIV 8750

E. O. 11652: GDS

TAGS: EFIN IS

SUBJ: PERIODIC ECONOMIC POWWOW

1. SUMMARY: TOP MINISTRY OF FINANCE AND BANK OF ISRAEL
OFFICIALS MET FOR TWO DAYS THIS PAST WEEK TO REVIEW THE
ECONOMIC SITUATION AND SET THE FRAMEWORK FOR THE SUPPLE-
MENTARY GOVERNMENT BUDGET. ACCORDING TO PRESS REPORTS
VERIFIED BY MINISTRY OF FINANCE OFFICIALS, TOTAL FY 78
GOVERNMENT SPENDING WILL BE IL 204 BILLION (IL 25 BIL-
LION ABOVE THE ORIGINAL BUDGET) AND THE DEFICIT WILL BE
IL 10 BILLION. MINISTER OF FINANCE EHRLICH STATED FOL-
LOWING THE MEETING THAT HE WAS CONFIDENT THAT THE COST
OF LIVING (COL) INCREASE WOULD BE HELD TO 33 PERCENT ON
A JANUARY THROUGH DECEMBER BASIS. END SUMMARY

2. THE MINISTER OF FINANCE, THE GOVERNOR OF THE BANK OF
ISRAEL AND THEIR TOP ASSISTANTS MET JULY 2 AND 3 TO
ANALYZE THE ECONOMIC SITUATION AND MAKE APPROPRIATE CHANGES
IN ECONOMIC POLICIES. THE MEETING WAS DEVOTED PRIMARILY
TO FORMULATING SUPPLEMENTARY BUDGET GOALS TO REFLECT
THE PUBLIC SECTOR WAGE AGREEMENTS, THE ANTICIPATED RATE
OF INFLATION FOR THE FISCAL YEAR, AND A REALISTIC RATE
OF EXCHANGE OF THE DOLLAR TO THE ISRAELI POUND.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 TEL AV 08750 121510Z

3. ACCORDING TO PRESS ACCOUNTS VERIFIED BY A MINISTRY
OF FINANCE OFFICIAL, THE SUPPLEMENTARY BUDGET WILL RAISE
TOTAL EXPENDITURES FOR THE FISCAL YEAR TO IL 204 BILLION
FROM IL 179 BILLION. THE INCREASE OF IL 25 BILLION IS
ATTRIBUTED TO THE WAGE AGREEMENT WHICH INCREASED WAGE
PAYMENTS BY SOME 15 PERCENT, A CHANGE IN THE PROJECTED
EXCHANGE RATE OF THE DOLLAR TO THE POUND, HIGHER COSTS

FOR GOODS AND SERVICES BECAUSE OF THE USE OF A UNREALISTICALLY LOW RATE OF INFLATION IN THE ORIGINAL BUDGET, AND A DOUBLING OF THE BILL FOR SUBSIDIES AS A RESULT OF THE WAGE AGREEMENT. ALTHOUGH THERE WILL BE NO NEW TAXES, THE MINISTRY OF FINANCE ESTIMATES THAT THE DEFICIT WILL INCREASE ONLY BY SOME IL 3.5 BILLION FROM IL 6.5 BILLION IN THE ORIGINAL BUDGET TO IL 10 BILLION, AND THAT THE 1978 LIQUIDITY INJECTION WILL BE LOWER THAN LAST YEAR'S IL 9 BILION. THE DEFICIT WILL BE HELD DOWN BECAUSE OF HIGHER TAX COLLECTIONS DUE TO HIGHER PERSONAL INCOMES AND HIGHER THAN EXPECTED GROWTH IN THE ECONOMY.

4. THE MINISTRY OF FINANCE NOW PROJECTS THE AVERAGE RATE OF EXCHANGE FOR THE DOLLAR DURING THE FISCAL YEAR WILL BE 19 POUNDS TO THE DOLLAR AND BY THE END OF THE FISCAL YEAR (MARCH 1979) THE RATE WOULD BE 21.5 POUNDS TO THE DOLLAR. THIS ACCOUNTING ADJUSTMENT IS RESPONSIBLE FOR ABOUT IL 7 BILLION POUNDS OF THE INCREASE IN THE BUDGET; ALTHOUGH IT HAS NO REAL EFFECT ON REVENUES OR EXPENDITURES.

5. EHRLICH, IN AN INTERVIEW FOLLOWING THE MEETING, INSISTED THAT THE COL WOULD BE HELD TO 33 PERCENT ON A JANUARY THROUGH DECEMBER BASIS AND 43 PERCENT WHEN COM-

CONFIDENTIAL

PAGE 03 TEL AV 08750 121510Z

PARING THE YEARLY AVERAGE OF 1978 WITH THE AVERAGE FOR 1977.

6. COMMENT: IT IS DOUBTFUL THAT THE GOI WILL BE ABLE TO HOLD SPENDING DOWN TO IL 204 AND THE DEFICIT TO IL 10 BILLION. THE DEFICIT MORE LIKELY WILL BE IN THE IL 13-15 BILLION RANGE, ROUGHLY THE SAME LEVEL AS LAST YEAR IN REAL TERMS. ON THE INFLATION SIDE, IF THE PUBLIC WAGE SECTOR AGREEMENTS ARE SIGNED ON THE BASIS OF THE GENERAL AGREEMENT, THE RISE IN THE COL COULD AMOUNT TO LESS THAN 35 PERCENT ON A JANUARY THROUGH DECEMBER BASIS; BUT WE BELIEVE OUR EARLIER ESTIMATE OF A RISE OF 35-40 PERCENT IS MORE PROBABLE. THE EXCHANGE RATES NOW PROJECTED FOR THE POUND OF 19 POUNDS TO THE DOLLAR AS AN AVERAGE FOR THE FISCAL YEAR AND 21.5 POUNDS FOR THE DOLLAR FOR FISCAL YEAR END ARE REASONABLE. THE EXCHANGE RATE FORECAST APPEARS TO BE A STRAIGHT LINE TREND OF THE FIRST QUARTER. LEWIS

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptoning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC TRENDS, GOVERNMENT MINISTRIES, MEETINGS
Control Number: n/a
Copy: SINGLE
Draft Date: 12 jul 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978TELAV08750
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780286-1186
Format: TEL
From: TEL AVIV
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780767/aaaacemy.tel
Line Count: 111
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 68cd7e76-c288-dd11-92da-001cc4696bcc
Office: ACTION NEA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 10 jun 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2029471
Secure: OPEN
Status: NATIVE
Subject: PERIODIC ECONOMIC POWWOW
TAGS: EFIN, IS
To: STATE
Type: TE
vdkvgwkey: odbc://SAS/SAS.dbo.SAS_Docs/68cd7e76-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014